OUTWARD FOREIGN DIRECT INVESTMENT (OFDI) FROM INDIA - A SECTORAL ANALYSIS

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ABSTRACT

Integration of the world economy, intensification of globalization, and the liberalization of government policies have created new opportunities worldwide. Moving towards globalization, companies meet the demand and also increase investments. Trade and foreign investments are two remarkable global integration paths, and trade is the traditional path. As an FDI pioneer and promoter, the FDI of the upper-middle-income countries became an essential source of integration with the low and middle-income countries.

India has become the most significant emerging economies with globalization and liberalization policies. The introduction of economic policies forced Indian companies to compete on a global scale to maintain an increasingly fierce competitive environment and the layers of new technologies, including new markets, acquire assets, acquire resources, and integrate the company's international business. Indian companies have responded to these strategic requirements through outward FDI (OFDI). India's overseas investments have increased significantly since the 1990s. Empirical analysis has mainly dealt with FDI from upper-middle-income countries. As low and middle-income countries such as India become vital participants in the FDI flow, it is vital to analyze the patterns, motives and factors that influence the location and impact of OFDI from these countries.

Existing Studies focused on Inward FDI (IFDI), but this study focuses on Outward FDI (OFDI) from India. Earlier research on OFDI has focused primarily on the firm-specific benefits. This study analyzes India's OFDI patterns, changes in contours concerning host country locations, sectoral composition, and their impact on home and host country. In light of the changing direction of OFDI in India, this study correlates investment motives and location factors between the upper-middle-income and low and middle-income countries complying with the international categorization established by the United Nations Conference on Trade and Development (UNCTAD) in its publication, the World Investment Report (WIR). Using 1991-2019 OFDI data, which is longer than other studies by India's OFDI, this study analyzes the determinants and impact India's OFDI in the home and country during the period 1991-2020 in the ambit of Dunning's eclectic paradigm (OLI paradigm) and Investment Development Path (IDP) theory. This study uses panel data techniques to identify critical factors and empirically test market seeking, resource seeking, strategic asset seeking and technology seeking nature of India's OFDI.

The study uses a time series method to empirically test the relationship between India's

OFDI, Trade and GDP. The study results reveal that India's OFDI is motivated by market seeking, resource seeking, and technology seeking motivation in upper-middle-income and low and middle-income countries. The results emphasize strategic assets as a significant motivation for investing in upper-middle-income countries rather than low and middle-income countries. India's OFDI is also actively linked to host country policies such as openness, corruption and market size. Outward FDI from India affects exports, as OFDI and exports are two means of internationalization. Theoretically, OFDI leads to further exports (positive or complements) or replaces exports with production (negative or substitution). Empirical testing of the OFDI-trade relationship shows a significant long-term positive relationship between the two.

The study is divided into five chapters. Chapter one comprises the introduction, backdrop of Global Outward FDI, India's FDI inflows and outflows, India's outward FDI. The second chapter consists of the literature review, theories of FDI, Statement of Problem, Research Gap, Research Question, Objectives of the Study, Need and Significance of the study. Determinants of India's OFDI towards upper-middle and low and middle-income countries, the impact of India's OFDI towards upper-middle and low and middle-income countries are analyzed in chapter three. This is followed by a Geographical and sectoral analysis of India's OFDI in upper-middle and low and middle-income countries and a region-wise analysis in chapter four. Chapter five presents the study results, factors affecting India’s Outward FDI among upper-middle and low and middle-income countries, followed by Implications of the Study in theory and practice and policy implications.

Key Words: India's Outward FDI, Upper-middle-income countries, Low and middle-income countries, Determinants, Impact.

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OUTWARD FOREIGN DIRECT INVESTMENT (OFDI) FROM INDIA - A SECTORAL ANALYSIS

1. INTRODUCTION

World economies integration, the intensification of globalization, and the liberalization of government policies created new opportunities worldwide. The most significant Degree of economic and financial integration in all economies led to the formation of investment capital. Moving towards globalization, companies meet the demand and increase in investments. Trade and foreign investments are two remarkable global integration paths, and trade is the traditional path. As an FDI pioneer and promoter, the FDI of the upper-middle-income countries became an essential source of integration with the low and middle-income countries. However, the eminence of low and middle-income economies, like China and India, has increased in recent years (Pradhan, 2017).

In the last two decades, the development and influence of low- and middle-income countries, such as India, China, Brazil, and Russia, have played an essential role in the world economy. These economies have become a substantial source of Outward FDI (OFDI) despite being the recipient of FDI for decades. Amid the liberalization of FDI policies and government regulations, low-income and middle-income economies attract friendly investors. The continuous entry of FDI shows the attractiveness of foreign investors in the country, and the FDI release is a benchmark to measure the efficiency and competitiveness of the country (Jayanthi, 2016).

FDI played a fundamental role in economic growth by providing job opportunities, qualified labour, better-advanced technology management and transfer skills for decades (Caves, 1971). With the growing role of multinational companies in the global market. The industrialized market rose rapidly in the 1990s compared to the 1960s, and the position of multinationals in the world market. Indian multinational companies have invested in foreign markets since the 1960s. However, their investment has stabilized after the 1990s (Ozawa, 1992; UNCTAD, 2005; Pradhan, 2005; 2007; Sauvant, 2005). Amidst the liberalization of the FDI guidelines, many Indian multinational companies have begun to invest and increase investments in foreign markets and acquired advanced technologies through knowledge-based industries, such as telecommunications, services, and automotive industries, improving their position in foreign markets.

However, in recent years, with the growing importance of emerging and low- and middle-income, like China and India, between Asia and Africa, foreign investments have undergone substantial changes. In 2019, Outward FDI (OFDI) from low- and middle-income countries were around the US $ 3,7312.3 billion. In 2019, the Asian region absorbed around US $ 3275880 billion from the FDI. Low and middle-income countries represent around 28 per cent of FDI outflows (UNCTAD and World Investment Report - WIR). Growth of Outward FDI from low and middle-income countries significantly affects international trade, economic development and the global economy for emerging economies, such as India. Therefore, it is essential to analyze the theoretically statistically FDI's flow, mode, and motivation. The conventional theory analyzes foreign investments from low and middle-income countries.

Furthermore, the FDI of the upper-middle-income countries accesses economic resources, markets and units to increase demand and operation. In light of this, it is unlikely that multinational companies from low and middle-income countries become great investors or competitors. It is possible due to the exclusive and financial advantages appreciated by the countries. However, in the last two years, the releases from the low and middle-income countries have increased. The growth of outward FDI from low and middle countries in Asia spotlighted the far-reaching trade in the global economy since the 1990s (Dunning, 2009). These investments raise questions regarding firms' competitive advantage from low and middle-income countries, the motives behind acquisitions, the locational choice, and the implications of outflows.

Outward FDI from India has been rising since the 1990s. With reforms in the overseas investment policy, India's overseas investment has undergone significant scale, geographical distribution, and sectoral composition developments. India's overseas investments are directed towards upper-middle-income countries, with increasing investments in the service sector since 2005. For example, in 2020, India created 5,429 new jobs in the United Kingdom (UK) through the investments of around 120 projects, becoming the secondary source of foreign direct investments (DIT 2020). Although India's overseas investment has grown, few studies focused on Indian OFDI. Most of them consider trends, models (Athreye, 2005; Kumar N, 1995; Nagaraj, 2006; Nayyar, 2008; Ramamurti, 2009; De Beule, 2012; Buckley P. J., 2007; Kumar N, 2008) and the determinants of the direct investment position abroad in India (Buckley P. F., 2012; Das K. & Bainik. N., 2015; Bhasin & Jain, 2015; Nunnenkamp, 2012; Pradhan J, 2011). Similarly, the recent works of (Bhaumik, 2010; Chittoor, 2009; Deng, 2012; Gaur, 2014; Pradhan J, 2005) focused on exploring the company's investment factors abroad for Indian companies.

The macroeconomic environment, considered part of the regional advantages of the 1970s, reveals the significance of the macroeconomic environment by explaining the model of position, structure and activity of multinational companies over the past 20 years. Recent studies of (Augier, 2009; Cavusgil and knight, 2015; Child, 2005; Gerschewski, 2015; Kylaheiko, 2011; Tseng et al., 2007, etc.) revealed the role of factors stopped as explains the activities of the OFDI (Bhasin, 2016; Das K. C., 2013; Estrin, 2016; Globerman, 1999; Hoang, 2015; Huang, 2017; Kalotay, 2010; Stoian C, 2013; Stoian C. &. Mohr, 2016). Subsequently, Tolentino (2010), Boateng (2012), Kyrkilis (2003) and Wei (2010) highlighted the macroeconomic advantages of the country.

The FDI theories believe that FDI is derived mainly from upper-middle-income economies (high-income groups). Their motivation is to look for large markets, resources, efficiencies, and new opportunities (Dunning, 1998). Since multinational companies enjoy ownership advantages, upper-middle-income economies have always been great investors. However, foreign direct investments from low and middle-income economies are increasing, such as India. In 1991, the Indian economy underwent significant changes after the economic reforms, continuous government policies and FDI patterns. Forcing the Indian companies to deal with competition and remain competitive in domestic and foreign markets. The rise in India's overseas investments raises questions about the factors that motivate Indian companies to invest in foreign markets. Hence requires a detailed analysis of the specific localization factors of the host country that affect trade decisions and investments. Most of the investigations made in India by (Lall 1976, Narayanan & Bhatt 2010; Pradhan, 2004) focus on the advantages of ownership (company-specific) that encourage Indian MNCs to invest abroad.

On the contrary, the advantages of the location (specific country) receive little attention. Therefore, it is required to analyze the importance of the benefits of the trans-regional location. Previously, Indian overseas investments were mainly aimed at the low- and middle-income countries but are now more oriented to upper-middle-income countries. Few studies have investigated the geographical advantages of upper-middle-income countries and the low- and middle-income countries. Therefore, this study analyzes the benefits of the position, the determinants, the influence and the geographical distribution of Indian Outward FDI. This research will help the design of policies that promote direct investments abroad.

2. LITERATURE REVIEW

The literature on foreign direct investment includes conceptual and pragmatic standpoints on the nature, trends, patterns, strategic motives, and impact on home and host economies. This chapter describes the evolution of FDI theory, the strategic motives affecting foreign investment, the status of outward FDI from India, and its impact on the home and host economy.

2.1 Theories of Foreign Direct Investment

The economic activities are based on commodities (trade) and investment methods. In particular, trade is the main economic channel connecting various economies, leading to overseas investment. Since the early 1950s, foreign investment has become increasingly important. Literary works specifically analyze the traditional foreign direct investment theories to understand the basic principles behind foreign investment (Zhao, 2010; Wei, 2010; Rasiah, 2010; Singal, 2012). The driving factors (pushing) and captivating (pulling) factors of the home and host economy, and how national-level economic framework encourages foreign investment. The most prominent foreign direct investment theories are Heimer's theory of multinational corporations, Johnson and Vahlne's Uppsala model, Dunning's eclectic theory (OLI paradigm), Rugman's FSA-CSA and framework, and Investment Development Path (IDP) theory.

2.2 Determinants of OFDI among Upper Middle-Income and Low Middle-Income Economies

Dunning’s Eclectic Theory (OLI Paradigm) is the integration of monopoly cost advantage (Hymer, 1976 and Coase 1937) substitution of cost theory and internalization theory (Buckley P. J., 1976). OLI Paradigm captures the sources of advantage that trigger the firms’ overseas investments. Ownership (O) includes company-specific interests, such as patents. Location (L) or the suitability of the environment, such as market size, structure, culture, laws, and policies. Internationalization (I) benefits follow this by setting up a foreign subsidiary or licensing the technology to firms in the host country (Tripathi & Thukral, 2019). Existing literature exhibits that push and pull factors affect FDI from low- and middle-income countries. Driving factors such as economic, financial, and institutional characteristics and distressing factors such as industrial, commercial, and institutional characteristics, together with other

factors, enforce overseas investment (Ariff, 2008). As mentioned above, the factors affecting Indian multinational companies are divided into (1) market seeking, (2) strategic asset seeking, (3) natural resource seeking, (4) efficiency-seeking, and (5) technical seeking and are related to each other.

2.3 Impact of OFDI among Upper Middle-Income and Low Middle-Income Economies

Existing research focuses on the impact of FDI on economic growth (Borensztein, 1998; Chakraborty, 2002; Hansen, 2006) as foreign direct investment always has a positive effect on economic growth. Compared to FDI inflows (IFDI), FDI outflows (OFDI) and economic growth have received less attention. Economists expect that outward foreign direct investment reduces domestic investment, production, and employment opportunities that affect economic growth (Al-sadiq, 2013; Ali, 2017). Instead, it helps economic development by providing access to new markets, technology imports, intellectual capital, production processes, improving competitiveness, improving management skills, and accessing distribution networks (Hong, 2019). For example, despite the economic growth rate (GDP) of 6.8 per cent in 2015 and 2016, China's foreign direct investment exceeded the inflow of FDI in 2016. It became the sixth-largest foreign direct investment in securities. (Perea, 2017.) - Global Investment Competitiveness Report 2017/2018) 6.2 per cent (2015) and 6 per cent (2016), capital investment 45.4 per cent (2015) and 44.26 per cent (2016), the unemployment rate 4.05 per cent (2015) and 4.02 per cent (2016) augmenting the economic globalization by 7.86 per cent from 2015 to 2016.

Studies reveal that productivity, employment, and innovation stimulate internal investment (Navaretti, 2006, Masso, 2013). On the other hand, the literature reveals a mixed opinion, and research is not significant (Hsu, 2011, Ito, 2000). Elia (2009) affects the demand for qualified skills directed to upper-middle-income countries. When multinational companies move production facilities abroad, the effects of OFDI differ in proportion to investment partners (Hejazi, 2003). Herzer (2008, 2011) analyzed the relationship between outward FDI and economic growth and found that outward FDI improves economic growth. Using an asymmetric ARDL model (Ali, 2018), OFDI complements the country by using the asymmetric ARDL model (Ali, 2018) to assess advanced innovation and technology between upper-middle-income and low and middle-income economies. In theory, the effects of OFDI are different from the country of origin based on the motivation for investment abroad. Similarly, the influence of OFDI generated by financial and product markets. OFDI complements the domestic economy through retraction formalin cages (Knoerich, 2017).

This study contributes considerably to the existing empirical literature by analyzing whether India's OFDI affects economic growth and allows outward FDI and economic development (Herzer, 2011). Since Indian multinationals are the first movers of low- and middle-income countries to invest overseas and maintain a period, it is requisite to determine the overall impact of FDI outflows on the domestic economy. Some of the variables affected by OFDI are employment, political risk and stability, economic development stage, and policy variables.

2.4 Statement of Problem

Foreign Direct Investment refers to the control of property abroad. It provides job opportunities and increases the gross domestic product of the host country. Simultaneously, it allows investors to use the host country's scarce resources, technology, research, and development to benefit one's own country. Foreign direct investments have positive and negative effects, and the influence varies according to the land, region, and economic development phase. As a current account deficit economy (CAD), India must ensure that FDI does not change internal investments because the capital formation is necessary for economic growth. Therefore, India's outward foreign direct investments must be carefully monitored to balance internal and foreign investments. The literature shows that studies have examined the impact of foreign investments on the economic growth of exports and other variables. This study examines whether outward FDI promotes economic growth or outward FDI stimulates economic growth as outward FDI and economic growth is determined endogenously by India.

2.5 Research Gap

Studies on OFDI from emerging markets like China increased (Zhang, 2009; Giorgioni, 2018; Deng, 2013; Kiggundu, 2008; Liu, Jiang, Zhang, & Chen, 2018; Fan, Haichao & Lin, Faqin & Tang, Kixin, 2018; Wang & Zhao, 2017; etc.) India (Rajan & Hattari, 2010; Athukorala, 2009; Pradhan J. P., 2007; Pradhan J. P., 2008; Iqbal, Turay, Hasan, & Yusuf, 2018; Kaushal, 2018; Chaudhry, Tomar, & Joshi, 2018; EIBOF INDIA - 2014) South Africa (Draper, kitaru, & Samuel, 2010; Gelb, 2010; Manyuchi, 2018; Judit Kiss, 2017) and other low- and middle-income and developed countries such as Singapore, Thailand and Malaysia (Nunnenkamp, Andrés, Vadlamannati, & Waldkrich, 2012; Wee, 2007; Chen & MohdZulkifli, 2012; Lee, Lee, & Yeo, 2015 etc.).

Existing research on FDI in India mainly focused on inflows. Few studies focused on the factors that affect FDI outflows and the unique interests of companies in the information

technology industry. The comments on India's OFDI are mainly about determinants and impacts. However, there are still some areas to explore in OFDI, including incentive mechanisms, differences in how emerging multinational companies operate in host countries, and the process of knowledge transfer within and between companies. The existing FDI theories based on multinational companies' experience and knowledge in middle and high-income countries. Over the years, people have tried to apply the traditional FDI theory to develop and demonstrate its rationality. Not all aspects of emerging multinational companies are only applicable to emerging multinational companies and emerging or low-income multinational companies. The increase in OFDI from India, its changing structure and patterns are regarded as a new phenomenon. In addition, there are several factors to be studied, such as the role of political variables and economic determinants and the impact of Indian OFDI. This research first looks at India's foreign direct investment policy and focuses on trends and patterns. Why do Indian multinational companies invest overseas? What are the determinants of Indian multinational companies' overseas investment? How does Indian investment affect the country? What is the political impact of India's FDI and the macroeconomic indicators of the country of origin? In this context, this study aims to fill this gap in the OFDI literature by analyzing the flow and impact of OFDI from India in high- and middle-income countries and low- and middle-income countries.

2.6 Research Question

1. What are the strategic motivations for India’s outward foreign direct investment? Are the driving factors of OFDI identical to the pulling factors?
2. Does domestic investment lead to outward foreign direct investment, or does outward foreign investment lead to domestic investment? If there is a causal relationship between the two, what is the process and direction?
3. From the home and host country perspective, what impact does India’s foreign direct investment have on a country’s economic growth?

2.7 Objectives of the Study

1. To study India’s Outward foreign direct investment policies.
2. To examine Outward foreign direct investment flow from India into upper-middle-income and low and middle-income countries and sectors.
3. To analyze the determinants of India’s outward foreign direct investment
4. To examine the causality relationship of India’s Outward FDI and economic growth.

5. To examine the impact of India’s Outward FDI and economic growth on the home and host country.

2.8 Significance of the study

According to the World Investment Report (WIR) 2018, global FDI flows fell by 23 per cent in 2017. Cross-border investment in the middle- and high-income economies and transition economies has fallen sharply, and the growth rate of low- and middle-income economies is close to zero. A very slight recovery observed in 2018. This negative trend is a long-term global policy issue, especially in low- and middle-income countries where international investment is critical to sustainable industrial development. India's growing outward foreign direct investment has made internationalization a strategic policy easier through foreign direct investment. Since India's OFDI flows are more to high-income countries (springboards) than middle- and low-income countries (stepping stones), the importance of analyzing various factors affecting this investment and their impact has increased. The motivation for Indian overseas investment is extensive assets and strategic markets (or emerging markets).

In contrast, people generally believe that finding resources motivates investing in low- and middle-income countries. As the company adopts new strategies to expand its global influence, we also study the impact of OFDI from low- and middle-income countries on the home country in this research. The significance of this study is to link the Indian OFDI in theoretical literature with the economic determinants of the host country in different country groups to test the experience of the impact on the host and the home country.

3. METHODOLOGY

The study is based on secondary data on India's outflow of foreign direct investment to different countries. For analysis, the countries grouped into low and middle income and upper-middle-income countries based on the categorization followed in the 'World Investment Report', a publication by the United Nations Conference on Trade and Development (UNCTAD) on global FDI.

Period of Study

India's OFDI is studied from 1990-2019, comparing it with pre-1991 data. The year 1991selected as the Government of India had introduced the Liberalization, Privatization and Globalization policy in that year. Subsequently, with policy changes, OFDI from India registered a considerable increase. The study analyses the host country determinants empirically tested by taking the annual foreign direct investment outflow data. The geographical and sector level analysis has been performed by dividing the host countries into upper-middle-income and low- and middle-income countries, based on the UNCTAD World Investment Report categorization. Moreover, for many host countries, the data for independent variables is not available. Thus, such countries are not considered for panel data analysis.

Data Sources

Secondary data for the analysis collected from the Reserve Bank of India (RBI): data on Overseas Investment, RBI publications, RBI reports, Export-Import Bank publication (2014) and (2017), data from the Ministry of Finance (1991-2018), World Bank's World Development Indicators, UNCTAD, and other published sources.

Variables

A panel data approach has been adopted to analyze market-seeking (market size), resource-seeking, strategic asset-seeking motives, and policy variables. The dependent variable in the study is the amount of OFDI outflow. The independent variables are the market-seeking, policy variables, resource and strategic asset-seeking variables in the host country.

Variables	Period of data	Source of data
OFDI Flow (US $ Million)	1991 - 2019	UNCTAD, Exim Bank, RBI
OFDI Flow (% of GDP)	1991 - 2019	World Bank, Finance Ministry of India
OFDI Stock (US $ Billion)	1991 - 2019	World Bank, India Stat, IMF Data Mapper
Trade openness (%)	1991 - 2019	World Bank, India Stat, IMF Data Mapper

Electric power consumption (kwh per capita)	1991 - 2019	World Bank, India Stat, IMF Data Mapper
REER	1991 - 2019	World Bank, India Stat, IMF Data Mapper
Annual Inflation	1991 - 2019	World Bank, India Stat, IMF Data Mapper
Average Inflation	1991 - 2019	World Bank, India Stat, IMF Data Mapper
GDP Annual Growth (%)	1991 - 2019	World Bank, India Stat, IMF Data Mapper
GDP per capita annual growth (%)	1991 - 2019	World Bank, India Stat, IMF Data Mapper
Gross Capital Formation ($million)	1991 - 2019	World Bank, India Stat, IMF Data Mapper
Gross Capital Formation (%)	1991 - 2019	World Bank, India Stat, IMF Data Mapper
Taxes on commercial profits (%)	1991 - 2019	World Bank, India Stat, IMF Data Mapper
Expense (% of GDP)	1991 - 2019	World Bank, India Stat, IMF Data Mapper
Research and development expenditure (% of GDP)	1991 - 2019	World Bank, India Stat, IMF Data Mapper
Exports of goods and services (% of GDP)	1991 - 2019	World Bank, India Stat, IMF Data Mapper
Labour force participation (%)	1991 - 2019	World Bank, India Stat, IMF Data Mapper
GDP per unit of energy ($)	1991 - 2019	World Bank, India Stat, IMF Data Mapper

STATISTICAL TOOLS

Descriptive statistical measures of averages and percentages and graphs used to analyze the determinants and impact of OFDI. The motives for the market seeking, political variables, resources, and strategic assets examined using panel data. Estimation method, cross-sectional data from low and middle and upper-middle-income countries from 1991-2020. The model was estimated using the Panel OLS fixed effect or random effect method. However, the model includes macroeconomic time-series data. If the variables of the time series have a unit root, the results based on the regression analysis of the Panel are subject to spurious correlation (Chakraborty & Nunnenkamp, 2008). An alternative method of fully modified least squares (FMOLS) panel method has been proposed that corrects for endogeneity and serial correlation for panel co-integration. The analysis first uses a Panel Unit Root test, the Im, Pesaran and Shin test to examine the stationarity of the variables.

3.1 Determinants of India's Outward FDI

Due to the internationalization, government policies and location advantages emphasize the advantages of ownership and the host country advantages. Macroeconomic indicators classified as location benefits (such as market size, GDP growth, inflation, exchange rates, etc.) are production and endowment factors (such as natural resources, cultural and physical proximity, labour, etc.) (Ruffin, 1993); environment Variables (such as political stability, market opening, infrastructure, laws, etc.) and the firm-specific advantages of the host country company. The foundation of Indian multinational companies is determined based on the above factors, which are divided into (1) market seeking, (2) asset seeking, (3) resource seeking, and (4) efficiency seeking. These motives are intertwined, so we must find the reason behind them. Asset-seeking incentivizes multinational companies to expand internationally. Concurrently, take advantage of existing companies and use the unique natural and labour capital to enter the host country's market.

According to Dunning J. H. (1993), FDI outflows regarded as characteristics of specific characteristics of the country of origin, such as wages, exchange rates, technology, and interest rates (Pantelidis, 2005). In addition, according to its economic growth, India's foreign direct investment status reflects a combination of ownership, location, and international advantages. Therefore, it is necessary to examine the relationship between FDI outflows and the economic development variables of the home country. Studies have attempted to model and study various aspects of India's foreign direct investment in this direction.

3.2 Impact of India's Outward FDI on Home and Host Economy

Any company wishing to enter the international market must decide how to enter through exports, joint ventures, or licensing. The choice of input mode is affected by many factors, including ownership interest, location interest, and internationalization interest. The statistical analysis and interpretation of the various host country (location-specific) variables introduced in this chapter will help determine India's foreign direct investment location. It also presented the research results of the relationship between India's foreign direct investment and economic growth in the following subsections.

1. Section A examines the factors influencing Outward FDI in the top 8 host countries.
2. Section B describes the factors that affect India's OFDI specifically to Upper middle-income host countries.
3. Section C discusses the host country's specific factors that affect the impact of India's OFDI in Low and middle-income countries.
4. Section D analyses the relationship between India's OFDI, GDP, and exports.

4. GEOGRAPHICAL DISTRIBUTION AND SECTORAL ANALYSIS OF INDIA'S OUTWARD FDI

The chapter analyzes India's Outward Investment of India (OFDI) in geographical management and a sectoral composition during 1991-2020. The period selected as liberalization, the Government of India has launched privatization and globalization policies (LPG) in the 1990s. The chapter begins with an introduction, a general description of the external FDI policy to facilitate understanding changes in the management and sectoral supply at the exit. A brief historical revision of India's OFDI presented to collect and examine India's dimension, direction, and sectoral composition changes. This section concerns the trend and models of the exterior FDI of India. This chapter is divided into five parts.

1. The background of global flows and stocks outward FDI.
2. The trend of India's OFDI since 1991.
3. The background of Indian OFDI.
4. The geographical and sectoral analysis.
5. Region-wise analysis of India's OFDI.

5. FINDINGS, IMPLICATIONS AND CONCLUSION

No economy is self-sufficient. Even high-pressure economies depend on low-income and transition economies to market their products and specialize in their finances. Every investor attempts to maximize the reimbursement of investments and minimize the risk. This applies to both governments and private investors. The MNEs today undertakes investments for various reasons and in multiple ways to obtain the maximum benefit of investments. Overseas direct investment (OFDI) is the best way to diversify the investments and reduce risk. Overseas direct investment (OFDI) plays an essential role in economic development by creating employment opportunities, improving technical efficiency and management skills, and promoting technological progress. Outward FDI has increased by multinationals and their subsidiaries in upper-middle-income countries, low and middle-income countries, and emerging economies. Before liberalization, the industrialized countries received the most foreign direct investment thanks to advanced technology, a well-trained workforce and sufficient natural resources. The current rise of the Third World Economy has shifted the focus of FDI from upper-middle-income countries to FDI from low and middle-income countries.

Indian multinationals have been investing overseas for many years, but the growth has been relatively slow. However, since economic liberalization, Indian multinationals have actively invested in various parts of the world. Mergers and acquisitions (M&A), Joint Ventures (JV), and greenfield investments (Wholly Owned Subsidiaries – WOS) are the most common modes to enter the overseas market. In general, India's direct investment is increasing in low and middle-income countries, with great diversity between sectors. As a result, the distribution of FDI heavily geared towards the industrial and service sectors. Current research shows that some host country-specific characteristics influence the direct investment of Indian multinationals abroad. The results of various research objectives are summarized below.

1. Trends and patterns of India’s OFDI by region, country, sector
2. Factors Affecting Indian FDI Outflows in the Top Seven Host Countries, Upper middle-income countries, Low and Middle-income Host Countries
3. The relationship between Outward FDI, GDP, and trade

FINDINGS OF THE STUDY

Objective 1 - To study India’s Outward foreign direct investment policies.

- The government should work to liberalize trade policies to increase the efficiency of Indian companies and establish a favourable climate.

- Indian companies look for host countries that offer incentives to participate in their market and businesses.
- The government can promote infrastructure-related FDI by changing current policies. Industrial clusters such as Special Economic Zones (SEZ) and Export Processing Zones (EPZ) create infrastructure to enable multinational companies to take advantage of economies of scale to improve their business performance.

Objective 2 - To examine Outward foreign direct investment flow from India into upper-middle-income and low and middle-income countries and sectors.

- The variables that influence Indian OFDI fluctuate significantly in upper middle income and low and middle-income countries as governments in rich and developing nations should establish different regulations for companies investing in both.

Objective 3 - To analyze the determinants of India's outward FDI

- Natural resources in emerging host countries encourage Indian companies to venture abroad.
- The outflow of FDI from natural resources, particularly in the mining industry, has increased sharply over the past 20 years.
- Indian companies invest rapidly in extractive industries to obtain cheaper inputs and improve their ownership advantages by acquiring and using natural resources in the host country.
- The available infrastructure attracts a significant foreign direct investment flowing into the host country.

Objective 4 - To examine the impact of India's Outward FDI and economic growth on the home and host country.

- Governments and multinationals (MNC) must be less concerned about short-term fluctuations in variables, such as inflation and tax rates, in search of strategic assets and variable institutional stability, such as corruption control and political stability.
- On the other hand, the needs of the prominent market size concentrated satisfactorily, the infrastructure and natural resources.
- Furthermore, Indian MNCs must create a list of priorities in the countries where they are weak and pursue political initiatives to increase outflows to use their resources better.

This finding also shows that natural resources in emerging host countries encourage Indian companies to venture abroad. Due to the steady rise in raw material prices, the outflow

of FDI in raw materials, particularly in mining, has increased over the past two decades. Therefore, the government should encourage and involve multinational companies (MNCs) in the international marketplace to conserve natural resources that help meet the increasing demand for energy and natural resources. In addition, Indian companies should move quickly into natural resources to obtain low-cost inputs and increase their ownership benefits by buying and using the host country's natural resources.

DISCUSSION

One of the purposes of this research is to examine the relationship between OFDI, GDP and trade. Granger causality test is used to check the causality between three variables: OFDI, GDP and trade. The study found that OFDI will not cause GDP, and GDP will not cause OFDI, which means that FDI outflows cannot predict GDP, and GDP does not help predict FDI outflows. There is no correlation between FDI outflows and GDP in the long run. The possible reason is that India's foreign direct investment accounts for a small proportion of India's GDP, and they are unlikely to affect each other. The study also discovered a one-sided relationship between trade and FDI outflows. This means that trading leads to the outflow of FDI, which means that historical trade data can help predict FDI outflows while FDI outflow data cannot indicate trade data. The study found that trade has nothing to do with GDP, which means that trade will not create GDP, and GDP will not promote trade. Therefore, trade does not help forecast GDP, and GDP does not help forecast trade.

The findings of the study reveal the existence of a positive impact of Outward FDI and are consistent with the studies of (Zhao, 2010; Liu H. &., 2011; Navaretti, 2006; Kumar N., 2008; Pradhan J. P., 2008; Chopra, 2014; Tsuchiya, 2015; Das K. C., 2013; Hsu W. G., 2011; Masso, 2013). In response to the OFDI towards upper middle-income countries India's OFDI has a positive relationship with real trade rate (Buckley P. J., 2007), real GDP growth (Lim, 1983; Cassou, 1997), an exchange rate (Chakrabarti, 2001; Swenson, 1994; Cassou, 1997; Froot and Stein, 1991; Barrell and Pain, 1998), Distance (Buckley, 2007; Zhang, 2019; Zeng, 2020). A positive impact is expected when the trade barriers are less (Chakrabarti, 2001; Gastanaga et al., 1998; Lall, 1976); economies with advanced technology (Cantwell, 1981; Prugel, 1981; Grubaugh, 1987; Pearce, 1989; Dunning J.H., 1993) and MNEs prefer to invest in countries with the existing network as it strengthens the domestic counties exports (Pradhan J. 2007; Lipsey, 1981; 1984; Kokko, 2006).

Outward FDI positively impacts the domestic economy and directly strengthens the economy through increased wages, exports, and investment in research and development activities. It also provides the national economy with “spill-over” to domestic production technology and management knowledge companies, making domestic companies more productive. Moran and Oldenski (2013) Keller and Yeaple (2009) found that new technologies and business practices benefit the family economy by requiring higher-quality inputs or increasing competition. Foreign direct investment spillover effects from low-income countries to middle-income countries take longer to materialize than high-income countries. Therefore, in the long term, foreign direct investment in low- and middle-income countries is expected to have a positive spill-over effect.

IMPLICATIONS OF THE STUDY IN THEORY AND PRACTICE

The significance of this research is both in theory and in practice. The results of this study indicate the following critical importance:

Implications for Theory

The findings validate the results of previous studies that market size, trade openness, availability of natural resources and infrastructure are essential factors influencing the outflow of FDI from India. The study also supports the view that the primary motivation for Indian companies to invest overseas is to enter new markets. In addition to economic considerations, this study also incorporates other factors such as strategic assets and institutional stability that were neglected in previous studies of India's OFDI. The research shows that strategic asset endowments and institutional determinants do not influence the FDI decisions of Indian multinationals. The research results support part of the OLI framework proposed by the Dunning model (Dunning, 2000). Given the vast market size, openness, availability of natural resources, and infrastructure development, the model shows that the company is looking for markets outside the home country.

Implications for Practice

Despite the theoretical implications described above, the results also reveal practical consequences for the Indian government and policymakers. According to the results, market size, trade openness, the availability of natural resources, infrastructure structures are significant variables of host nations that influence investment decisions abroad. Economic stability, control of corruption and political stability, on the other hand, are the minor variables

when performing selections of foreign investments. The following are some of the practical branches of this search:

Policy Implications for Businesses

According to this study, Indian multinationals are encouraged to venture abroad by upper middle income, and industrialized countries encourage Indian companies to venture abroad. This discovery offers Indian politicians significant interests and the importance of substantial benefits and market opportunities to attract Indian companies. Policymakers need to take the necessary measures to expand the size of the Indian market so that multinationals can reduce their production and transaction costs and invest in their country of origin as it involves further job opportunities, economic growth, and FDI inflows, among other factors benefits. The Indian multinationals should try to conquer a substantial part of the foreign markets abroad, take advantage of their ownership to gain economies of scale and scope, and build trade policies to leverage internationalization when investing abroad.

Government and Firms Implications

Furthermore, the study finds that the opening of the host economy positively impacts India OFDI. As a result, the government should work to liberalize trade policies to increase the efficiency of Indian companies and establish a favourable climate. Indian companies, however, look for host countries that offer incentives to participate in their market and businesses. There is a remarkable variation of the factors influencing India's OFDI in upper middle income and low- and middle-income nations. As a result, governments should separate rules for companies that invest in industrialized and low- and middle-income nations. Furthermore, the Indian multinationals should create a list of priorities in the countries where they are weak and pursue political initiatives to increase the outputs to use their resources better.

CONCLUDING REMARKS

The study examined the trends and patterns and the determinants and impacts of India’s FDI during 1991-2020 and linked location factors to the motivation of investments. The study analyzed the motives of market seeking, resource seeking, strategic asset seeking, efficiency-seeking and technology seeking as determinants of India’s OFDI. Moreover, it examined the role of host country politics. The study highlights the changing contours of India’s OFDI in terms of geographic location and sectoral composition of OFDI. India’s investments are now

in a more significant number of countries, with increased investments in upper-middle-income regions. The outflows to the service sector increased amidst the industry's growing importance in the Indian economy.

What are the strategic motivations for India's overseas investments for the research question? The study finds that India's OFDI has been motivated by market-seeking, and therefore, host countries with larger markets attracted more investment. The search for resources has been a reason for investments in both low and middle income and upper-middle-income countries. This supports the hypothesis that India's investments were motivated by resource seeking in the upper-middle-income and resource-rich countries. The strategic pursuit of wealth was a reason to invest in the upper-middle-income region. OFDI India has enabled investors to access markets, resources, technologies and brands. The research question Does domestic investment lead to outward foreign direct investment, or does outward foreign investment lead to domestic investment? If there is a causal relationship between the two, what is the process and direction? The study finds that while investment firms undertake investments as a strategic decision, the economic impact of such investments is an emerging area of research.

The third question from the home and host country perspective is, what impact does India's foreign direct investment have on a country's economic growth? The present study examined the relationship between OFDI and exports. Outward investment from India has also supported the country's export flow. Therefore, the policies to support outward investment help Indian firms strengthen their competitive advantage and expand their global presence. Governments and multinationals (MNC) must be less concerned about short-term fluctuations in variables, such as inflation and tax rates, in search of strategic assets and variable institutional stability, such as corruption control and political stability.

Nevertheless, the prominent market size needs, the infrastructure, and natural resources concentrated satisfactorily. Suppose governments and multinational corporations pursue system stability variables like strategic assets, corruption control, and political stability. In that case, they should not worry about short-term fluctuations in variables like inflation and tax rates but should strive to please the big market, high infrastructure, and, of course, more FDI. Multinational companies can place each step in a country that can efficiently complete a specific part of the process at a lower cost of production and then connect all the stages through the deal to provide effective manufacturing to buyers worldwide.

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